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USTR FOR STRATFORD, ALTBACH

E.O. 12958: N/A
TAGS: EWWT EINV ECON PREL CH TW
SUBJECT: Taiwan Determined to Prevent PRC-Linked Investor from Taking Over Shipping Company

¶1. (SBU) Summary: On February 9, the boards of two state-controlled shipping companies, Taiwan Navigation and Yang Ming Marine, voted to swap stocks in order to prevent privately held Chinese Maritime Transport from taking control of Taiwan Navigation's board. Chinese Maritime's chairman has close ties to the PRC. The firm has called the swap illegal. However, on February 15, Taiwan financial regulators fined its chairman for failing to report the firm's acquisition of stock in Taiwan Navigation. The case shows the serious concern Taiwan authorities have about the possibility of an investor with close ties to the PRC taking control of a state-controlled enterprise. End summary.

¶2. (U) On February 9, 2006, the boards of directors of Taiwan Navigation Company and Yang Ming Marine Transport voted to swap stock. Taiwan Navigation traded 51.57 million of its shares for 69.63 million shares of Yang Ming at a 1 to 1.35 ratio. Both Taiwan Navigation and Yang Ming are shipping companies controlled by the Taiwan authorities. Before the stock swap, the Taiwan authorities owned 27 percent of Taiwan Navigation and approximately 35 percent of Yang Ming. Taiwan Navigation operates 30 ships, focusing on near-sea bulk commodity shipping. Yang Ming owns 79 vessels with generally longer routes and more container shipping.

¶3. (U) Taiwan's Ministry of Transportation and Communications (MOTC) ordered the swap to maintain control of Taiwan Navigation in the face of a takeover bid from Chinese Maritime Transport. Chinese Maritime is a Taiwan-registered company reportedly 67 percent owned by John Peng of Hong Kong. It operates five bulk cargo vessels. In just over a year, Chinese Maritime had acquired a 28.9 percent stake in Taiwan Navigation to become the largest shareholder. MOTC ordered the swap after Chinese Maritime requested seats on Taiwan Navigation's board of directors, including the power to appoint the chairman. The stock swap raised the Taiwan authorities and Yang Ming's combined ownership in Taiwan Navigation to 41 percent. Chinese Maritime's stake was diluted to 25.7 percent. Subsequently, Yang Ming purchased additional stock in Taiwan Navigation to raise the total stake controlled by the Taiwan authorities to nearly 49 percent.

¶4. (U) Some media reports have speculated that the authorities took action because of Peng's support for the Pan Blue opposition and close links to the PRC. Peng is a brother-in-law of CCP Political Consultative Council Vice Chairman and former Hong Kong Chief Executive Tung Chee-hwa. In addition, Peng has close connections with other senior PRC officials, including Shanghai Deputy Mayor Hu

Yenchao. Taiwan law prohibits almost all investment in Taiwan from PRC sources.

¶5. (U) In response to the swap, Chinese Maritime took out half-page ads in two Taiwan business dailies calling the stock swap illegal and against the interests of shareholders. Chinese Maritime argued that a more appropriate swap ratio would have been 1 to 1.5. The firm called other shareholders to join it in requesting an investigation by Taiwan's Financial Supervisory Commission (FSC). The FSC indicated that it would look into the swap.

¶6. (U) Initially, Chinese Maritime announced that it would spend NT$1.6 billion (US$49 million) to raise its stake up to 37 percent and seek more funding to further raise its stake. It also said it would seek support from smaller shareholders to challenge the control of the Taiwan authorities. However, on February 15 after it had become apparent that Peng would not be able to top the authorities' 49-percent stake; he told the press that he would keep his stock because all parties agreed on Taiwan Navigation's future.

¶7. (U) On February 15, the FSC revealed that it had fined Chinese Maritime's Peng NT$240,000 for failing to properly report Chinese Maritime's acquisition of its stock in Taiwan Navigation. Chinese Maritime purchased the stock through subsidiaries that are private companies not subject to the same reporting requirements as Chinese Maritime. However, the FSC pointed out that Taiwan law required Chinese Maritime to report the purchases.

¶7. (SBU) Comment: The Taiwan Navigation case illustrates two characteristics of Taiwan's economic policy. It shows the determination of the Taiwan authorities to prevent an investor with links to the PRC from taking control of a state-controlled enterprise, even when it does not violate regulations that restrict PRC investment in Taiwan. The Chen administration's "active

management" of cross-Strait investment in cases like this suggests an arbitrary and not entirely transparent policy. The case also suggests that the Taiwan authorities only half-heartedly support continuing privatization. It raises the question of why the authorities need to maintain controlling interest in two commercial shipping companies. End comment.

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